

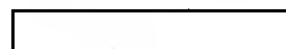
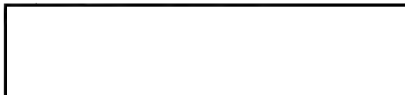
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27 January 1952

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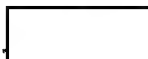


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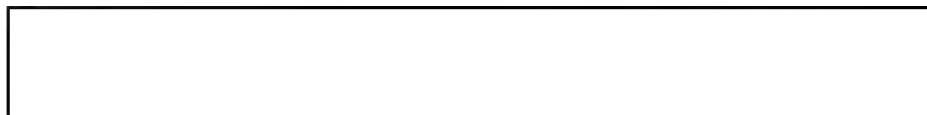
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CENTRAL INTELLIGENCE AGENCY



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GENERAL

1. Comment on Soviet boycott of Austrian treaty talks:

The refusal of the Soviet representative to attend the 259th meeting of the Austrian deputies in London has probably terminated the first phase of renewed Western efforts to secure an Austrian settlement. By making further treaty talks contingent upon the discussion of Austrian demilitarization and denazification and the Trieste issue, the USSR has made apparent its unwillingness to give up its position in Austria on any terms the West is willing to offer.

Since the possibility of achieving an agreement through further Western concessions appears for the time being to have been eliminated, future negotiations with the British and French for the introduction of an abbreviated treaty draft are likely now to be less difficult. The Austrian Government and the general public are deeply pessimistic over current developments, and Austrian officials have already intimated their desire that their country's case be submitted to the United Nations.

FAR EAST

2. Karen-Communist accord reported imminent:

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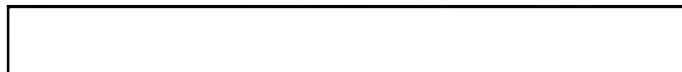
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[Redacted] Karen leaders will sign an accord early in February with the Burmese Communists at Mawchi, a town in eastern Burma near the Thai border.

Comment: Full-scale Karen-Communist cooperation would present a grave threat to the Burmese Government. There have been some signs that sweeping Communist promises have become increasingly attractive to the hard-pressed Karens, but the latest report from Burma indicated that the Karens preferred to withdraw some of their most important demands upon the Government rather than enter an alliance with the Communists. Mawchi and the surrounding area have been controlled by the insurgent Karens for nearly three years but have been relatively free of Communist activity.

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4. Comment on Chinese Communist efforts to procure rubber from Ceylon:

The arrival of one Polish and one Russian ship at Colombo during the past week makes possible the resumption of shipments of rubber to China. With the ban on exports of rubber to China from Malaya and other producing areas, the Chinese Communists have been looking to Ceylon as their only source for legitimate shipments. Ceylon, not a member of the UN and not subject to the UN embargo resolution, permits exports of rubber to China.

Lack of shipping space has thus far prevented the Chinese Communists from getting more than one shipment from Ceylon — a 5,500 ton cargo transported by a Polish vessel last October.

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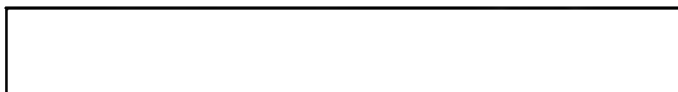


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several thousand tons of Ceylon rubber are now earmarked for China — more than the two vessels which arrived in the past week are expected to carry.

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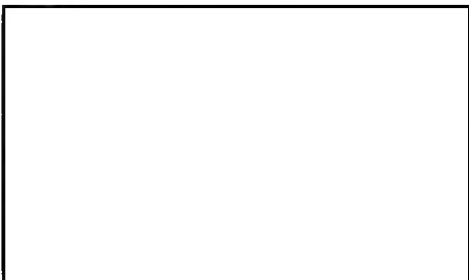
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NEAR EAST - AFRICA

5. France prescribes conditions for resumption of talks with Tunis:

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The French Cabinet has authorized the resumption of talks with the Tunisians, but not until the Bey recalls his two ministers who are now in Paris attempting to obtain UN support for Tunisian autonomy. France no longer insists upon dismissal of the Bey's Cabinet. Negotiations would be held in Tunis, the French delegation to be

headed by the Resident General, and the Tunisian by Prime Minister Chenik.

The Bey, however, has so far refused to recall the Ministers from Paris or to make a public appeal for the restoration of order. He insists that the nationalist leader, Habib Bourghiba, must be released as the prerequisite for these concessions. The Resident General, however, is convinced that because of firm French efforts to restore order and the failure of the Tunisians to obtain UN action, the Bey and his Cabinet will capitulate to French demands.

Comment: Disorders, which began 16 January, have ceased in most parts of the country, but the lessening of political tension depends upon a more conciliatory French policy toward Tunisian desires for self-determination.

EASTERN EUROPE

6. Hungarian Government assails US note:

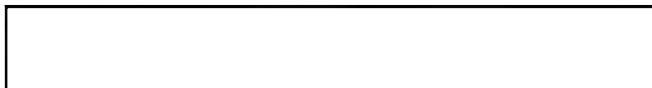
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The Hungarian Government in a note of 25 January stated that the tenor of the American note of 29 December 1951 "is not susceptible for the maintenance of normal relations between sovereign states."

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[REDACTED] When the American Minister refused to accept the note because of its offensive language, an official of the Hungarian Ministry of Foreign Affairs informed him that the language accurately represented the views of his Government and could not be changed.

In commenting upon the return of the Hungarian note, the US Minister states that his action may result in his being declared persona non grata.

Comment: The American note of 29 December 1951 had replied to Hungarian charges against the Mutual Security Act. The stress in the current Hungarian note is upon the unsatisfactory terms of the American reply. This is in contrast to a similar Soviet note of 9 January 1952 which emphasized the hostile nature of the Mutual Security Act.

WESTERN EUROPE

7. Comment on record Italian defense budget:

The Italian Government has approved a record defense budget for 1953 of 980 million dollars, a 200 million dollar increase over the previous year's expenditures. This budget, however, does not meet fully the recommendations made by the Temporary Council Committee of NATO for the 1953 Italian defense effort. Furthermore, Italy is making the implementation of its defense effort for 1953 conditional on further US aid. Full compliance with the recommendations has been prevented by the unexpected expenditures due to the recent floods, the government's awareness of its deteriorating political position, and pressure from the democratic Socialists and left-wing Christian Democrats, as well as Communists, for greater social expenditures.

The Italians now say that implementation of the 1953 defense budget depends upon a level of economic aid adequate to meet the balance of payments deficit, an increased flow of items for military end use, assurances of the supply of necessary raw materials, and assistance in the solution of manpower problems through emigration.

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[REDACTED]

8. Chancellor Adenauer rejects contractual security controls:

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Chancellor Adenauer told the Allied High Commissioners on 22 January that Germany is willing to accept security controls in the form of restrictions on arms production, but

did not want this written into an annexed convention to the General Agreement. Adenauer stated this in response to the French High Commission's query as to when the Federal Republic would submit its promised proposal on security controls. In reply, the French High Commissioner accused Adenauer of trying to renounce the proposed convention on security controls and of thus endangering the whole system of contractual arrangements.

Comment: During the past few weeks the French and West German representatives had been conducting bilateral negotiations without success in an attempt to resolve the question of security controls. Allied diplomats in general regard the current German stalling as an effort to secure further concessions.

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